

13 September 1954

\*OGC Has Reviewed\*

MEMORANDUM FOR: The Record

SUBJECT : Internal Tax Unit

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25X1 1. A meeting was held on September 9, 1954, regarding the Tax Unit with the following persons present: [redacted] (Chief, FD), [redacted] (COA-DD/P), [redacted] (Office of Security), and the undersigned. The purpose of the meeting was to pursue the implementation of the Tax Unit from internal aspects in accordance with the memorandum from the General Counsel to the DD/A dated 31 August 1954 (see paragraph 4).

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2. Following some general discussion regarding the various aspects of the respective problems of the persons present, the main points affecting the function of the Unit were decided to be as follows:

(1) Determination of the taxpayer to be covered by the Unit. (This will be done jointly by the Operating division, the Finance Division, and, for an initial period, the Office of General Counsel.)

(2) Assignment of authenticator. (It was decided the most appropriate, convenient, and secure indicator here would be the individual's regular covert payroll number.)

25X1 (3) Filing of the W-4. (This is the individual's exemption record and if it is not filed the maximum tax will be withheld. [redacted] indicated that these should be obtained by 25 December 1954 in order to be effective for the tax year, 1955.)

25X1 (4) Withholding of tax under normal payroll processes. [redacted] indicated that this would fall within his established procedures and presented no unusual difficulty.)

(5) Final quarterly adjustment. (This, together with a continuing adjustment as required during the year, will be accomplished by the Finance Division, and, aside from occasional peak loads, would not require additional personnel but simply a readjustment of their present staff.)

(6) Filing of the Agency's "Employer" return on or before 28 February 1955. (This is on the assumption that we will be able to obtain an additional month's extension beyond the due date of 31 January, which has not so far been changed by any Internal Revenue Regulations under the Internal Revenue Code for 1954.)

(7) Filing of the individual's final return by 15 April 1955.

3. The general outline of action and procedures indicated above will, of course, require appropriate instruction to the field which should be issued as quickly as possible. The procedures will be reviewed next week with representatives of the IRS and instructions will then be issued following final formulation.

4. The Declaration of Estimated Income on the covert side presents some difficulty insofar as the penalty for underestimating is concerned. Where the taxpayer has considerable private income and the differential payment to be made covertly exceeds the estimated tax liability by more than 20%, there doesn't seem to be any solution at the moment. This will be reviewed with the IRS people, as well as the question of refund or credit for the payment of foreign taxes rather than direct reimbursement by the Agency. We will also get into the details and mechanics of handling the payment to the District Director in Baltimore, reviewing this from various security aspects.

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Office of General Counsel

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